



African  
Development  
Foundation

**CONGRESSIONAL  
BUDGET JUSTIFICATION**

Fiscal Year 2005

April 2004

## TABLE OF CONTENTS

List of Tables and Figures .....	iii
Letter of Transmittal.....	iv
Introduction.....	1
Africa’s Development Challenges and Potential.....	1
ADF Contributes to Advancing U.S. Foreign Policy and National Interests.....	1
ADF’s Programs are Unique .....	3
ADF’s Progress – FYs 2003 and 2004.....	5
Making a Difference in People’s Lives.....	5
Promoting Innovative Trade and Investment.....	7
Forging Strategic Partnerships.....	7
Restructuring Program Operations.....	8
Strengthening Financial Management and Management Information Systems.....	9
Budget and Program Overview.....	11
Summary of the FY2005 Budget Request.....	11
Program Funding .....	12
Operating Expenses .....	14
FY 2005 Performance Plan.....	15
Summary of Projected Impact at the Request Level.....	15
Micro- and Small-Enterprise Development.....	16
Trade and Investment.....	18
AIDS Prevention and Mitigation.....	19
Building Community Development Agencies.....	21
Community Reinvestment.....	22
Partnerships With African Governments, Donors, and the Private Sector ....	22
Participatory Development Best Practices.....	23

## **LIST OF TABLES AND FIGURES**

Table 1. ADF's Strategic Goals and Objectives.....	2
Table 2. ADF's Performance Results for Fiscal Years 2000, 2001, 2002 and 2003.....	6
Table 3. Budget Summary.....	11
Table 4. Breakdown of Funding by Country, FY 2004 and FY 2005.....	13
Table 5. Breakdown of Funding by Sector, FY 2005.....	14
Table 6. Potential Countries for New (or Re-opened) ADF Programs.....	14
Table 7. MSE Performance Targets and Performance.....	17
Table 8. T&I Performance Targets and Performance .....	19
Table 9. HIV/AIDS Performance Targets and Performance.....	20



April 9, 2004

As the African Development Foundation celebrates its twentieth anniversary of operations, I am pleased to submit the African Development Foundation's budget justification for Fiscal Year 2005. The \$17.0 million requested is vital to sustaining the United States' commitment to unleashing the economic potential of Africa and to slowing the spread of HIV/AIDS and mitigating its economic and social impact. The Foundation's appropriated funding in FY 2005 will be crucial to leveraging public and private contributions under strategic partnerships that ADF has in ten countries.

The requested funding would be used to:

- Assist the development of 83,300 micro and small enterprises through increasing their access to credit, improved technologies, training and technical assistance, and other business development services;
- Promote new export trade and investment opportunities in eight countries that will integrate grassroots producers and small-scale manufacturers into the global economy;
- Provide African-driven HIV/AIDS prevention training to 265,000 people and support innovative, indigenous approaches to mitigate the catastrophic financial, economic, and social problems that this disease causes in families and communities;
- Build fifteen sustainable local community development agencies that support participatory grassroots development;
- Establish additional strategic partnerships with national and local governments, donors, and the private sector that will leverage \$4.2 million in contributions;
- Encourage African governments and major development assistance organizations to increase use of participatory development methods; and
- Respond to expressions of interest from the Congress and African governments to expand beyond the fifteen country programs ADF is currently operating across sub-Saharan Africa to one or two additional countries.

The Foundation makes important and distinct contributions to advancing U.S. foreign policy priorities and national interests in sub-Saharan Africa.

- By stimulating grassroots trade and investment, ADF is demonstrating how small African enterprises can become participants in the global economy.
- By empowering Africa's poor to increase their incomes and productivity in sustainable ways and by fostering strong self-reliance and self-governance, the Foundation's program is an essential element of a U.S. foreign assistance policy that helps Africa take the road to greater prosperity and political stability.
- By building local institutions, ADF is strengthening civil society and governance and laying a foundation for democracy.
- And, by fostering innovative, local solutions to stem the spread of HIV/AIDS and mitigate its impact, the Foundation is directly contributing to the U.S. policy priority to combat the pandemic in Africa.

ADF is unique in its focus and approach. The Foundation makes grants *directly* to African enterprises and non-governmental organizations; none of our resources pass through government agencies or international organizations. All ADF-funded projects are "made in Africa" – proposed, designed and implemented by the beneficiaries themselves, with any needed technical assistance and training provided entirely by local experts. ADF's participatory development approach builds local capacity and promotes self-help and self-reliance by unleashing entrepreneurial spirit and mobilizing community resources. ADF's efforts complement larger, government-to-government assistance programs by tackling problems "from the ground up" and developing new models for promoting grassroots development that can be replicated on a larger scale by the private sector, African governments, and other development assistance agencies.

Moreover, as the only U.S. government agency focused uniquely on Africa, ADF has a special visibility and strong support among citizens and advocacy groups committed to assisting the continent's development.

ADF has demonstrated that it *does* make a difference in the lives of low-income people in Africa, through innovative, cost-effective and sustainable investments. ADF builds ties of friendship between the American people and the people of Africa. The opportunities that ADF offers for improving the lives of people in the world's poorest region are large and the price tag is small. We hope you will support ADF's full budget request of \$17.0 million for FY 2005 to help advance the excellent and innovative work of the Foundation and to reaffirm America's commitment to Africa.

Sincerely yours,

Nathaniel Fields  
President

# **INTRODUCTION**

**“We believe that growth and prosperity in Africa will contribute to the growth and prosperity of the world...We believe that this can be a decade of unprecedented advancement...”**

**President George W. Bush**

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## **AFRICA’S DEVELOPMENT CHALLENGES AND POTENTIAL**

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Sub-Saharan Africa has made important gains, but the challenges facing the region are enormous. Nearly half the continent’s population of 700 million people lives on less than \$1 a day. Although agriculture is the backbone of most African economies, it is the only region in the world where hunger is getting worse overall; about 45 percent of the world’s malnourished live in Africa. Moreover, millions of people, thousands of communities, and numerous national economies have been ravaged by AIDS; more than 70 percent of all cases worldwide are found in Africa, all but one of the 25 most affected countries are in Africa, and the pandemic is still exploding.

The message of this picture and the lesson of development experience are unmistakable: broad-based economic growth must be stimulated to alleviate poverty, development investments must reach the grassroots, and African communities and enterprises must be strengthened to lead their own development. Moreover, the HIV/AIDS pandemic requires mobilizing the ideas and energy of the African people and communities.

There are encouraging signs that underscore Africa’s potential. Due to better macro-economic policies and increased trade flows, sub-Saharan Africa’s recent economic growth has surpassed average global growth rates. Over the past decade, sub-Saharan Africa’s trade has grown by almost 40 percent. While the global economic downturn caused Africa’s exports to decline slightly in the past two years, the continent has fared much better than the developing world as a whole. Nonetheless, while it has 11 percent of the world’s population, Africa accounts for only 1.4 percent of global trade. Also, new direct foreign investment has not increased in recent years. Both trade and investment have been largely concentrated in a few countries and a few sectors. African countries are responding to the opportunities under AGOA, but the continent still needs innovative investments in its future.

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## **ADF CONTRIBUTES TO ADVANCING U.S. FOREIGN ASSISTANCE OBJECTIVES**

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The Foundation makes important and distinct contributions to advancing U.S. foreign assistance objectives in sub-Saharan Africa. Africa could become the fastest growing market of the 21<sup>st</sup> century and help fuel global prosperity. However, endemic poverty and disease create conditions that pose major threats to regional stability and global security.

- By stimulating grassroots trade and investment, ADF is demonstrating how small African enterprises can become participants in the global economy.
- By empowering Africa's poor to increase their incomes and productivity in sustainable ways and by fostering strong self-reliance and self-governance, the Foundation's program is a unique element of a U.S. foreign assistance policy that helps Africa take the road to greater prosperity and political stability.
- By building local institutions, ADF is strengthening civil society and governance and laying a foundation for democracy.
- And, by fostering innovative, local solutions to stem the spread of HIV/AIDS and mitigate its impact, the Foundation is contributing to the U.S. policy priority to combat the pandemic in Africa.

The Foundation's corporate strategic goals and objectives are found in Table 1.

### **Table 1 – ADF'S STRATEGIC GOALS AND OBJECTIVES**

#### **Goal I: Advance broad-based, sustainable development and empowerment of the poor in Africa**

- Objective 1: Promote micro- and small-enterprise development that will generate income and employment
- Objective 2: Increase participation of African grassroots enterprises and producer groups in trade and investment relationships with the U.S. and within Africa
- Objective 3: Promote innovative community-based interventions to remediate the economic and social impact of HIV/AIDS and reduce its spread

#### **Goal II: Expand local capacity to promote and support grassroots, participatory development**

- Objective 1: Build self-supporting, sustainable, local community development Partner Organizations that provide technical assistance and support to grassroots groups
- Objective 2: Promote community resource mobilization and reinvestment
- Objective 3: Establish strategic partnerships with national and local governments, other donor agencies, and the local private sector, to support sustainable, grassroots development
- Objective 4: Encourage African governments and other donors to increase utilization of participatory development "best practices"

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## ADF'S PROGRAMS ARE UNIQUE

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ADF is unique in its philosophy and operations. Consequently, it is the kind of American assistance that has high demand in Africa, and it has broad appeal in the United States.

Most conventional foreign aid programs are not “home-grown” within Africa. Donor agencies typically design projects in conjunction with governments or international private voluntary organizations (PVOs), often utilizing foreign “experts.” The bulk of funding goes to projects implemented by government agencies or international PVOs or their local affiliates, and those projects are often heavily dependent on expatriate technical assistance. The intended beneficiaries usually do not have any sense of ownership of those projects.

ADF takes a completely different approach. The Foundation’s distinctiveness derives in large part from its philosophy.

- ADF believes – and our twenty years of experience in grassroots, participatory development has demonstrated – that local communities are a vital source of ideas and energy for development; there is **a rich pool of underutilized African expertise** and local resources that needs to be tapped.
- Africans do not need a “hand-out.” Even while we are **focused on the poor**, we are seeking to **unleash their entrepreneurial spirit** and to enable Africans to **take leadership and responsibility for their own development**.
- ADF is a **partner** with its grantees in working to alleviate poverty and promote broad-based growth.
- We are **making catalytic investments** in Africa’s development.
- ADF promotes **innovation** to crack some of Africa’s vexing development problems, but we also emphasize **viability and sustainability** in project selection and implementation.

The Foundation is very distinct in its operations.

- ADF’s activities are African-driven and African-owned. All our programs are “made in Africa” – proposed, designed and implemented by the beneficiaries themselves, with any needed technical assistance and training provided entirely by local experts.
- The Foundation’s assistance goes *directly* to indigenous micro, small and medium-size enterprises, cooperatives, rural producer groups, community associations, or to local non-governmental organizations (NGOs) that represent and provide services to poor communities. As a result, ADF’s assistance directly affects people’s lives, and its impact is measurable.



- ADF's investments help Africans help themselves. The Foundation works hand-in-hand with local groups to strengthen their management and technical capacity and financial viability so that activities are sustained long after assistance ends.
- The Foundation promotes innovative approaches to grassroots development. It is able to work with young but promising enterprises and organizations to pilot new ideas and approaches because its grants are small and its focus is on African solutions.
- ADF has initiated an innovative business model for supporting its grantees. ADF is developing "Partner Organizations" in each of the countries where it works to assist applicants in developing, implementing, and assessing their projects. These local non-governmental organizations (NGOs) are staffed by African development professionals who bring rich knowledge of their communities, cultures, environments, and economies to the Foundation's program. ADF is committed to helping its Partner Organizations increase their capacity and achieve long-term financial sustainability with a diversified funding base.
- The Foundation is building strategic partnerships with public and private entities that serve as vital sources of capital and technology for grassroots development.
- ADF places a high priority on reaching underserved populations such as women, ethnic and cultural minorities, and recent school-leavers, as well as orphaned children and extended families and communities affected by AIDS; the bulk of ADF's assistance is directed toward rural and peri-urban areas.

ADF is the only U.S. Government agency working solely at the grassroots level in Africa to alleviate poverty and promote broad-based sustainable development. The Foundation's efforts complement larger, government-to-government assistance programs by tackling problems "from the ground up" and developing new models of participatory development that can be replicated on a larger scale by the private sector and other development assistance agencies.

Moreover, as the only U.S. government agency or program focused uniquely on Africa, ADF has a special visibility among citizens and advocacy groups committed to assisting the continent's development.

## ADF'S PROGRESS – FYs 2003 AND 2004

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### MAKING A DIFFERENCE IN PEOPLE'S LIVES

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ADF's programs have a significant and measurable impact on improving the lives of Africa's poorest. In fact, over the past four years, due to more rigorous project screening, design and monitoring and as the portfolio matures, the Foundation's performance results have increased substantially.

In FY 2003, the Foundation exceeded all of its project-related performance targets, including:

- ADF helped grow more than 80,000 micro and small enterprises – almost fifteen times more than in 1999.
- Half of the direct beneficiaries from ADF's MSE support were women.
- More than \$15.1 million in small loans were extended to micro-entrepreneurs who could not access credit from a formal bank; almost 62 percent of those beneficiaries were women.
- ADF-assisted businesses in the active projects generated an estimated \$28.8 million in annual revenue and more than \$6.4 million in *profits* since the projects began.
- In addition, ADF's catalytic investments in small African business and agricultural cooperatives producing for the global market generated more than \$12.0 million in revenues.
- ADF funding provided training in HIV/AIDS prevention to more than 280,000 people, most of whom do not have access to such critical, life-saving information. The Foundation also began a new pilot program of small grants to mitigate the economic and social impact of this devastating disease.

More detailed results can be found in ADF's Annual Performance Report, but Table 2 summarizes results against some of the principal performance targets for the period FY 2000 through FY 2003.

**TABLE 2. Actual Performance Results for Fiscal Years 2000, 2001, 2002 and 2003**

<b>Performance Indicator</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>Micro- and Small Enterprise Development</b>				
Enterprises assisted	19,635	47,049	86,180	80,946
Owners and employees in assisted enterprises	47,168	36,457	96,854	112,802
Women as a percent of employees in assisted enterprises	77.0%	56.8%	58.1%	48.2%
Enterprises receiving loans	42,518	54,099	65,319	67,893
Values of loans disbursed	Indicator Not in use	Indicator not in use	\$11.2 million	\$15.1 million
Percent of total value of loans for women*	81.7%	50.8%	60.6%	61.8%
Total gross revenues of assisted enterprises and organizations	Indicator Not in use	\$17.5 million	\$53.4 million	\$28.8 million
Total net income of assisted enterprises and organizations	Indicator Not in use	\$10.5 million	\$14.6 million	\$6.4 million
<b>Trade and Investment</b>				
Number of export products promoted	2	4	19	Indicator discontinued
Total gross revenues of assisted enterprises and organizations from export sales	Indicator Not in use	Indicator not in use	\$7.6 million	\$12.0 million
<b>AIDS Prevention &amp; Mitigation</b>				
People receiving training in AIDS prevention	962	35,483	274,041	282,089
Women as a percent of people receiving AIDS prevention trg*	Indicator Not in use	57.0%	66.8%	64.9%
<b>Participatory Development Methods</b>				
Partner Organizations assisted	13	14	13	13
Host governments encouraging donors to adopt PDM or allocating more funding to PDM	2	2	4	8

\* The actual percentages for women are higher than reported since all beneficiaries were counted as men when gender-disaggregated data was not available; thus percentage of women as beneficiaries is a conservative, lower-bound estimate.

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## **PROMOTING INNOVATIVE TRADE AND INVESTMENT**

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**“By itself, aid cannot transform societies. Only trade can foster sustained economic growth necessary for such a transformation.”**

**Ugandan President Yoweri Museveni**

For the past several years, the African Development Foundation has been piloting some exciting investments that promote new export trade and investment (T&I) opportunities for small-scale African businesses and agricultural cooperatives. The focus of these efforts is to identify and promote non-traditional export crops and existing small-scale manufacturers or processors and to help these enterprises improve production and productivity and successfully move their products into regional and international markets. The African Growth and Opportunity Act of 2000 (AGOA) specifically recognized the important role of ADF in helping to integrate small-scale producers at the grassroots level into the global economy.

ADF has on-going T&I programs in Uganda, Tanzania, Zimbabwe, Namibia and Ghana, focused on assisting small-scale producers to grow, process and export a variety of primary commodities, including paprika, vanilla, silk, Nile perch, rock lobster, leather products, fruit juices, sea salt, and table grapes. In addition, the Foundation is currently launching new T&I programs in Zambia and Cape Verde, and later this year will initiate programs in Nigeria also. Most of these eight programs involve co-funding contributions from African governments, and leverage capital or technical assistance from the private sector. ADF conducts rigorous financial analyses and market surveys as part of the design and approval process, similar to what a venture capital firm would undertake to fund an activity. The Foundation also develops and tests models for transferring technology to small producers.

Those highly successful endeavors are proving that small African enterprises and African farmers can diversify into new commodities, can meet international standards, and can successfully compete in the global economy.

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## **FORGING STRATEGIC PARTNERSHIPS**

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Under its new corporate strategy, the Foundation has set an objective to “establish strategic partnerships with national and local governments, other donor agencies, and the local private sector, to support sustainable, grassroots development.” Toward this end, ADF is building innovative partnerships that can serve as vital sources of capital and technology to expand the impact of our program and to disseminate and replicate some of our rich lessons learned and best practices about grassroots development.

The Foundation began strategic partnerships several years ago. The initial focus has been on leveraging contributions from national and state governments. ADF is now expanding its efforts to attract contributions from international and African corporations. In all these

programs, the Foundation maintains and promotes its core values – accountability, sustainability, innovation, grassroots-based and African-owned investments – and ADF is wholly responsible for assuring accountability for funds, program implementation, and achievement of targeted results.

At the end of FY 2002, ADF had three active strategic partnerships: in Botswana and Guinea, both supported by the national governments; and in Nigeria supported by the Jigawa State Government. The work ADF has done under the Guinea partnership has been heralded by World Bank officials as some of the most innovative rural infrastructure in Africa and is being used as a model for new World Bank-funded programs in Senegal and Niger. In Jigawa, northern Nigeria, ADF received more than \$500,000 in contributions for a program that has successfully demonstrated a low-cost, appropriate-technology approach for constructing rural and peri-urban housing; it is already being replicated in other states in Nigeria. Moreover, implemented in one of the strongest Islamic states in Nigeria, this program has projected a strong, positive American presence and fostered goodwill.

In FY 2003, ADF aggressively expanded its strategic partnerships with firm commitments of contributions to co-fund projects in six additional countries. The Foundation is developing trade and investment projects in Ghana, Zambia and Cape Verde, activities to provide sustainable income for AIDS victims in Swaziland, and enterprise development projects in Mali and Senegal. Through these nine active strategic partnerships the Foundation expects to leverage at least \$4.2 million in contributions for grassroots development during FY 2005.

As the request from the Zambian head of state indicates, these partnerships are forged on the assessment that ADF's approach is both unique and effective:

“Appreciating the grassroots work and the activities that the African Development Foundation supports...I know very well that such support to Zambia would be significantly very beneficial to our people.”

President Levy P. Mwanawasa

Based on discussions the Foundation has already had with other governments, as well as with large corporate entities seeking to fund philanthropic activities, there is an unmet demand for ADF's support and great potential for additional strategic partnerships.

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## **STRENGTHENING PROGRAM OPERATIONS**

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The Foundation has undertaken a major restructuring of both its headquarters and field operations during the past two and a half years to strengthen program operations. In response to recommendations by the USAID Inspector General, the Foundation has established two new mechanisms for field operations: the Partner Organization and the Country Representative.

ADF established the Partner Organization Development Program as a major strategic initiative and launched the arrangement in early FY 2002. Our experience showed that there

was a great need for professional indigenous organizations that practice participatory development and are committed to grassroots development. The Foundation's objective is to "build self-supporting, sustainable, local development agencies that provide technical assistance and support to grassroots groups." Through an open, competitive grant process, ADF selected a local non-governmental organization in each country. Under a performance-based cooperative agreement, which is renewable annually up to five years, the Foundation is building the capacity of indigenous Partner Organizations to become financially and institutionally sustainable, professional development entities.

The Partner Organizations assist prospective grantees in developing proposals for funding, including conducting rigorous financial analyses to ensure the viability and sustainability of the proposed projects. After ADF awards project grants, the Partner Organizations provide training in financial management and participatory evaluation to grantees, routinely visit them to monitor progress and assist in rectifying implementation problems, and advise them on preparing quarterly financial and performance reports.

The Country Representative reports to ADF and is independent of the in-country Partner Organization that ADF supports. While the Partner Organization supports grantees, the Country Representative carries out functions that support ADF and, hence, are overhead in nature. Their principal duties include analyzing the viability of proposals, conducting due diligence on prospective grantees, assessing the financial management capacity of new grantees, reviewing their use of funds throughout the life of the grant, monitoring project implementation and remediation, and assessing program impact.

In light of the new field structures, the Foundation has also realigned its headquarters staffing to give greater attention to project analysis, financial management, support for initiatives in trade and investment and HIV/AIDS, forging and implementing strategic partnerships, assessing program impact, disseminating lessons learned and best practices, and strengthening outreach.

While the Foundation is optimistic that these new structures will improve efficiency and effectiveness over time, the Foundation has had to make significant costs in transitioning to and launching these new structures during FYs 2003 and 2004. We are continuing to restructure headquarters and country representative staffing to reduce these overhead costs in FY 2005.

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## **STRENGTHENING FINANCIAL MANAGEMENT AND MANAGEMENT INFORMATION SYSTEMS**

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The African Development Foundation has greatly strengthened both its own financial management and that of its grantees, and has improved management information systems for headquarters operations and grants administration.

ADF takes its fiduciary responsibilities very seriously. Despite the nascent capacity of many

of its grantees, the Foundation maintains high standards of financial accountability.

- As part of the initial screening process of prospective grantees, ADF staff formally assesses a group's capacity to control and account for funds and makes a certification of its capacity, including areas where additional training or remediation are required.
- All grantees are required to submit quarterly financial reports and financial statements.
- After a grant is approved, the Partner Organization provides a five-day training course in ADF accounting procedures and reporting requirements. Each of the Partner Organizations has a full-time, experienced Financial Officer on staff who provides this initial training, as well as refresher training and advice, as needed by grantees.
- The Country Representative monitors the reporting by grantees and also makes regular site visits to check project accounting as well as to monitor overall implementation progress.
- In addition, ADF contracts with independent audit firms in each country where it operates to conduct audits of each grant over \$50,000 is audited at least once during its life.

ADF also maintains financial oversight of all Partner Organizations that have cooperative agreements with the Foundation. An internal audit of each Partner Organization is conducted every year.

ADF undergoes annual, independent audits that address its financial statements, internal controls, and compliance with USG laws and regulations. For the past three years, the Foundation has received an unqualified opinion on all five financial statements, as well as its comparative FY 2001/2002 and FY 2002/2003 statements, from its independent auditors and the USAID Office of the Inspector General. Thus, the Foundation is in full compliance with all OMB requirements and new statutes, including the Accountability for the Tax Dollar Act. These are major accomplishments.

To further strengthen its financial management, ADF has negotiated an interagency agreement with Department of Interior's National Business Center to provide full system support utilizing the federal government-approved Oracle Financial Management system. This will ensure the integrity of ADF's financial data and will provide timely reports to assist management in making key decisions regarding the Foundation's financial operations.

Finally, ADF has a comprehensive grants database to improve management oversight and internal controls for financial reporting by grantees and Partner Organizations. ADF is currently using the database to support its year-end financial statements. In FY 2004, the Foundation plans to expand the database to include more information on project performance and results.

## BUDGET AND PROGRAM OVERVIEW

### **SUMMARY OF THE FY 2005 BUDGET REQUEST**

The African Development Foundation is requesting \$17.0 million in appropriated funding for Fiscal Year 2005. This, in turn, will be utilized by ADF to leverage \$4.2 million in contributions from the private sector and other development partners for the Foundation's program. A summary of the budget for FY 2005, as well as a breakdown for the past two fiscal years is found in Table 3.

**TABLE 3**  
**Budget Summary**

Description	FY 2003 Actual	FY 2004 Estimate	FY 2005 Proposed
<b>FUNDING AVAILABLE</b>			
Current FY appropriations	18,689	18,689	17,000
Rescission	(121)	(110)	0
Prior FY carry-over	1,211	3,232	0
Leveraged contributions	1,277	4,200	4,200
Contributions/Appropriations	6.8%	22.5%	24.7%
<b>Total Funding</b>	<b>\$21,056</b>	<b>\$26,011</b>	<b>\$21,200</b>
<b>EXPENDITURES</b>			
<b>ADF Program Funding</b>	<b>\$10,515</b>	<b>\$18,811</b>	<b>\$15,200</b>
Project grants	7,348	14,120	11,072
Partner Organization development grants	2,712	4,016	3,453
Program contracts	345	425	425
Learning and Dissemination	110	250	250
<b>ADF Operating Expenses</b>	<b>\$6,487</b>	<b>\$7,200</b>	<b>\$6,000</b>
ADF/W costs	5,077	4,144	3,600
Country Representative costs	1,410	3,056	2,400
Operating expense/Total funding	32.0%	27.7%	28.3%
<b>Total Expenditures</b>	<b>\$17,002</b>	<b>\$26,011</b>	<b>\$21,200</b>



## **PROGRAM FUNDING**

The FY 2005 request would fund an estimated 66 development projects, primarily in rural and peri-urban areas. It would enable ADF to expand its newest country programs in Zambia, where ADF has a strategic partnership with the national government focused on promoting grassroots trade and investment. The appropriation request will allow ADF to initiate one or two new country programs where the Foundation could make a significant contribution with its direct, participatory approaches. ADF is currently considering among ten countries that fall in one or more of the following categories: (a) ADF previously had a program there but had to close in the mid 1990s due to budget constraints; (b) the country has been hard hit by HIV/AIDS; and (c) the U.S. has critical interests there (see Table 6). This expansion would be premised on establishing new strategic partnerships with host governments and/or private corporations, which would leverage contributions to extend the impact of appropriated funding.

The requested appropriation would be used to:

- Increase the access of micro- and small- enterprises to credit, improved technologies, training and technical assistance, and other business development services;
- Promote new export trade and investment opportunities (T&I) for African enterprises, especially those involving U.S. businesses and small-scale producers in Africa. The African Growth and Opportunity Act of 2000 (AGOA), which was passed with strong bipartisan support, specifically recognizes the important role of ADF in helping to integrate small-scale producers at the grassroots level into the global economy;
- Support innovative, indigenous approaches to AIDS prevention and to mitigating the catastrophic financial, economic, and social problems that this disease causes in families and communities;
- Build, sustainable local community development agencies that support participatory grassroots development;
- Promote community reinvestment;
- Establish additional strategic partnerships with national and local governments, donors, and the private sector; and
- Encourage African governments and major development assistance organizations to increase use of participatory development methods.

Tables 4 and 5 below show a break-down of funding by country and sector, for fiscal year 2005. In FY 2005, virtually every country program is being built or expanded as the Foundation raises additional external contributions. In fact, in ten of the countries the development grants will be funded on a 50/50 basis; that means that almost every dollar of

appropriations is leveraging one dollar from African governments, donors or corporations for grassroots development administered by the Foundation.

**TABLE 4**  
**Country Break-down of Funding (in \$000)**

<b>FY 2005 Summary</b>				
	<b>Development Grants</b>	<b># Projects Funded</b>	<b># Active Projects</b>	<b>External Contributions</b>
Botswana	\$ 1,000	6	19	\$ 500
Cape Verde	\$ 800	6	12	\$ 300
Ghana	\$ 1,500	8	22	\$ 600
Guinea	\$ 600	4	21	
Mali	\$ 600	4	25	\$ 200
Namibia	\$ 1,000	5	16	\$ 400
Niger	\$ 600	4	18	
Nigeria	\$ 1,200	6	20	\$ 500
Senegal	\$ 600	4	13	\$ 200
Swaziland	\$ 800	6	8	\$ 400
Tanzania	\$ *		17	
Uganda	\$ *		24	
Zambia	\$ 1,000	5		\$ 500
Zimbabwe**	\$ 172	2	10	
New Country #1	\$ 600	3	5	\$ 300
New Country #2	\$ 600	3		\$ 300
<b>Total</b>	<b>\$ 11,072</b>	<b>66</b>	<b>255</b>	<b>\$ 4,200</b>

\* No funding is currently programmed in Tanzania or Uganda; because both programs undertook many new projects in FY 2003 and 2004, the focus in FY 2005 will be on effective implementation in those programs.

\*\* HIV/AIDS funding only is planned in Zimbabwe in light of the current political and economic crises.

Table 5.

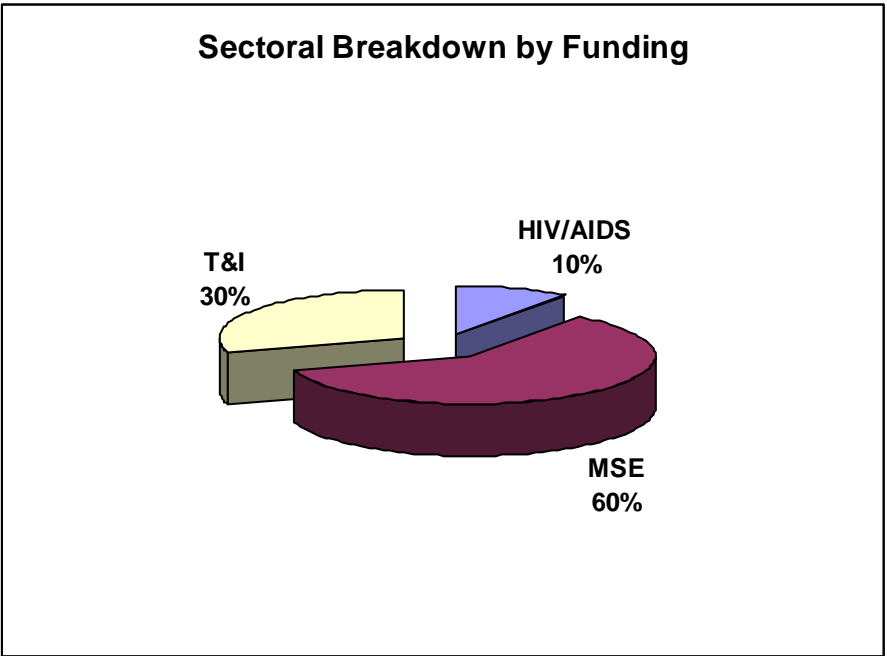
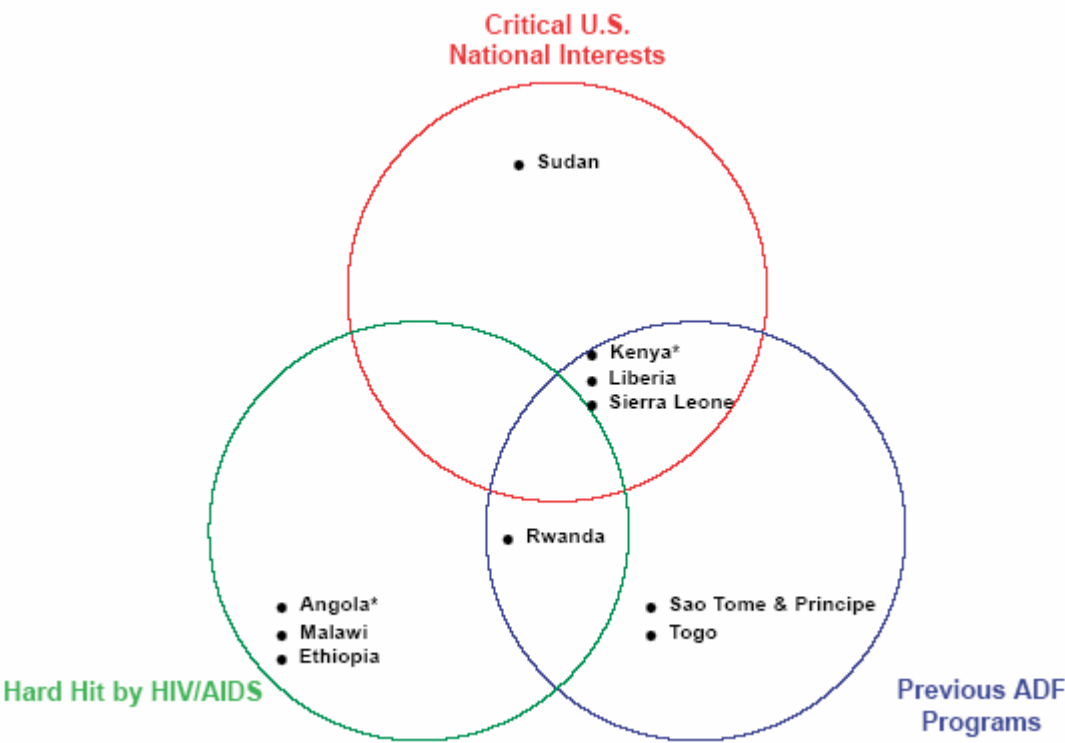


Table 6.



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## **OPERATING EXPENSES**

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The Foundation's Board of Directors and President are committed to ensuring a high level of efficiency and effectiveness in the organization's operations. Operating costs increased markedly in FY 2003 and FY 2004, caused by a number of factors:

- The Country Representative structures, which resulted from the IG-recommended changes in field operations, will cost \$3.0 million in FY 2004 as a consequence of long term office leases and equipment needed to get them up and running. All of the Country Representative costs are outright increases in overhead from previous years.
- ADF headquarter costs spiked in FY 2003 due to extensive traveling to set up both the Partner and Country Representative structures and technical assistance to develop and launch some of the special initiatives and strategic partnerships.
- The Foundation has entered into an interagency agreement for automated financial management support that costs \$326,000 annually compared to the previous agreement with another agency that cost only \$48,000 but had to be abrogated because that agency was unable to maintain a proper general ledger.
- ADF has also out-sourced its contracting services to the Bureau of Public Debt, Department of the Treasury.

There are a core structure and functions and certain "sunk costs" in operating, regardless of whether we are executing \$11.5 million in project grants, as is currently the case, or \$16 million, as we anticipate doing with increased contributions. There are a number of reasons for this:

- Because we work with grassroots groups that have limited management capability, it requires intensive support and oversight.
- As a learning organization that funds innovative activities, we must do proper diligence in project design to avoid undue risk and must conduct intensive monitoring and evaluation to promote replication of successful activities and to disseminate lessons learned.
- Although we are a very small agency, we are required to fulfill the normal regulations and procedures and reporting requirements that much larger organizations do.

Thus, there are economies of scale to be captured by increasing our external contributions that can be directly programmed for projects without additional overhead costs. As described above, this has been a major focus of ADF management this past year.

Nonetheless, ADF's management goal is to get operating expenses to below 25 percent of total funding, and the Foundation will cut overhead by 16.7 percent between FY 2004 and FY 2005.

- Headquarters costs will be reduced more than 18 percent between FY 2003 and the current year, and they will be cut an additional 13 percent in FY 2005.
- ADF will be able to reduce outlays for Country Representatives by 20 percent next year.

## • FY 2005 Performance Plan

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### **SUMMARY OF PROJECTED IMPACT**

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There is a high degree of unpredictability in setting and achieving performance targets given the nature of the Foundation's operations. In keeping with its Congressional mandate, ADF supports "development efforts initiated by communities themselves." All proposals must be consistent with the Foundation's overall strategic objectives, every group is screened against specific criteria to ensure they have the experience and capacity to execute their proposal, and each project is rigorously assessed to ensure its viability and sustainability. Nonetheless, because we respond to requests for assistance, the actual number, size and type of projects funded vary greatly from year to year. This makes it difficult to predict performance in advance, and it makes it difficult to compare performance from one year to the next..

However, over each of the past five years that ADF has conducted an annual Assessment of Program Impact, actual performance has exceeded planning targets for most indicators. Year-on-year, the Foundation's results and impact have increased significantly. ADF has set ambitious performance targets for FY 2005, drawing from the experience gained in assessing performance and building on results to date. The requested appropriation for FY 2005 is critical to ADF's success in achieving these targets.

ADF is committed to achieving the following performance targets *during* FY 2005:

- Assisting the development of 83,300 micro and small enterprises and entrepreneurs;
- Development and promotion of a wide range of export products in eight countries;
- Supporting AIDS prevention training for 265,000 people;
- Building the capacity of fifteen community development agencies;
- Opening one or two new country programs; and
- Leveraging \$4.2 million from African governments, other donors, and private corporations.

The subsequent discussion describes ADF's strategy for achieving each of these strategic objectives and performance targets.

## **Goal I: Advance Broad-Based, Sustainable Development and Empowerment of the Poor in Africa**

Despite recent, impressive growth and development, sub-Saharan Africa still lags behind all other regions of the world. Every significant socio-economic indicator (GNP per capita, life expectancy, infant and child mortality, adult literacy, primary and secondary school enrollment, total fertility) shows that the welfare of the people of Africa is still significantly worse than every other region. Poverty is pervasive in sub-Saharan Africa. It is estimated that nearly half of all Africans live on less than the equivalent of one U.S. dollar per day. Moreover, millions of people, thousands of communities, and numerous national economies have been ravaged by AIDS.

ADF funds projects that improve directly and significantly the livelihood of those involved. The Foundation stresses innovation and the use of participatory development methodologies in its projects, in order to alleviate poverty and stimulate growth on a large scale through the development of models that can be replicated by African governments, large bilateral and multilateral donors, and private voluntary organizations.

### **Objective 1. Micro- and Small Enterprise (MSE) Development**

#### ***Promote micro- and small-enterprise development that will generate income and employment***

Increasing the productivity and profitability of micro- and small-enterprises (MSEs) is critical for broad-based economic growth and poverty alleviation. These enterprises are important sources of income, employment, and empowerment for the poor, particularly for women and other disadvantaged groups. In times of economic distress, MSEs become even more vital as a safety net for producers and an affordable supply of consumer goods for low-income people.

When jobs are lost in the formal private sector and government in developing countries, the number of informal sector MSEs often increases because these highly flexible enterprises face low barriers to entry. These enterprises are less susceptible to disruptions than larger, formal sector firms from the cost increases caused by declines in local currency values. The goods and services offered by MSEs typically have less imported content than those of their competitors. MSEs also provide more employment per unit value of output since they are usually more labor-intensive and require less skilled labor.

Growth in micro- and small-enterprises increases income-earning opportunities for other small-scale producers since MSEs commonly have relatively strong backward and forward linkages in the domestic economy. The development of non-farm sources of cash income is an important element in increasing the economic well-being of rural people and diversifying incomes against the common risks of agricultural production (bad weather, pests and diseases, and low market prices when harvests of perishable crops are good).

By empowering Africa's poor to increase their incomes and productivity in sustainable ways and by fostering strong self-reliance and self-governance, the Foundation's program is an essential element of a U.S. foreign assistance policy that helps Africa take the road to greater prosperity and political stability.

In FY 2005, ADF will continue to offer some grants to develop and expand micro-finance institutions, but the bulk of support will be direct assistance to micro and small enterprises that demonstrate high potential for **strong people-level impact, growing profitability, and long-term viability and sustainability**.

The Foundation will help:

- Increase access to fixed or working capital;
- Provide better information on market trends or improved production methods;
- Expand access to improved technologies;
- Strengthen business administration, production quality control, and financial management.

Requested FY 2005 appropriations for the micro-and small-enterprise development objective: \$6.643 million (60% of project grants).

**TABLE 7 – MSE Performance Indicators and Targets**

<b>Performance Indicator</b>	<b>2004 performance (planned)</b>	<b>2005 performance (projected)</b>	<b>Out-Year Performance funded by 2005 request</b>
Enterprises assisted	70,500	83,300	168,600
Owners and employees in assisted enterprises	79,200	93,600	250,000
Women as a percent of employees assisted	Minimum of 50%	Minimum of 50%	Minimum of 50%
Value of loans disbursed to MSEs	\$9.194 million	\$10.870 million	\$29.018 million
Women's percent of value of loans	Minimum of 50%	Minimum of 50%	Minimum of 50%
Gross revenue of assisted enterprises and organizations	\$43.697 million	\$51.664 million	\$137.924 million

## **Objective 2. Trade and Investment (T&I)**

### ***Increase participation of African grassroots enterprises and producer groups in trade and investment relationships with the U.S. and within Africa***

The increasingly integrated global economy presents unprecedented opportunities for grassroots entrepreneurs and producers to increase their incomes through greater participation in the international economy. However, in Africa, both trade and foreign investment have been largely concentrated in a few countries and in a few sectors. Despite the large potential for increasing exports of African products and expanding U.S. private sector investment in Africa, many good opportunities for small- and medium-sized businesses have not been exploited due to various bottlenecks in production and marketing. Small-scale producers often need assistance in increasing their volume or quality of production and in gaining access to value-added processing and more profitable marketing arrangements.

The African Growth and Opportunity Act (AGOA) is helping to expand and diversify trade and attract critically needed foreign investment for the continent. AGOA specifically recognized the important role of ADF in developing and implementing strategies for promoting participation of grassroots producers and small-scale manufacturers in the global economy. All of the countries where ADF works have been designated as beneficiaries under AGOA, with the exception of Zimbabwe.

For the past several years, the Foundation has been piloting some exciting investments that promote new export trade and investment (T&I) opportunities for small-scale African farmers and enterprises. The focus of these efforts is to identify and promote non-traditional export crops and existing small-scale manufacturers or processors and help these enterprises improve production and productivity and successfully move their products into regional and international markets.

ADF helps small-scale producers take advantage of new opportunities by:

- Expanding access to capital, technology and markets;
- Promoting the adoption of high-value, non-traditional crops by small-scale farmers;
- Establishing or expanding local processing or manufacturing to add value to primary products;
- Helping producers scale-up production and improve quality to meet the demands of export buyers;
- Creating new export marketing linkages for regional and world markets; and
- Where needed, assisting companies and their small-scale suppliers to advocate changes in government policies that impede their development.

By stimulating grassroots trade and investment, ADF is demonstrating how small African enterprises can become participants in the global economy.

Requested FY 2005 appropriations for the trade and investment objective: \$3.322 million (30% of project grants).



**TABLE 8 – T&I Performance Indicators and Targets**

<b>Performance Indicator</b>	<b>2004 performance (planned)</b>	<b>2005 performance (projected)</b>	<b>Out-Year Performance funded by 2005 request</b>
Countries assisted to develop export products	6	8	10
Export sales	\$6.210 million	\$7.342 million	\$19.600 million

### **Objective 3. AIDS Prevention and Mitigation**

*Promote innovative community-based interventions to remediate the economic and social impact of HIV/AIDS and reduce its spread*

**“AIDS is not just a compelling moral issue, it is not just a humanitarian issue; it is far more than just a health issue. It is a destroyer of nations. It is a destroyer of societies. It has the potential to destabilize regions, perhaps even entire continents...HIV/AIDS is an economic issue, leaving nations without the human resources to grow and develop, ultimately sapping global well-being. This is a crusade that must be won...Foundations have a particularly unique role to play because foundations contribute more than just money. They are contributing their long experience in evaluating proposals and working with grantees.”**

**Secretary of State Colin Powell**

Africa is, by far, the worst-affected region of the world by HIV/AIDS, and the pandemic continues to deepen and widen. More than 70 percent of all cases worldwide are found on the continent, and all but one of the 25 most affected countries are in Africa. Prevalence rates increased in 14 countries in 2001, and 3.2 million more people were infected in 2003. Seven African countries now have an HIV infection rate that exceeds 20% of the population.

Millions of people, thousands of communities, and numerous national economies have been ravaged by AIDS. Daunting statistics only begin to tell the story of devastation.

- Almost 27 million people in Sub-Saharan Africa were living with the virus at the end of 2003, including ten million young people (aged 15-24) and almost 3 million children under 15. Two-thirds of the young people living with AIDS are female.
- AIDS has already claimed the lives of more than 20 million Africans, including an estimated 2.3 million last year alone. Eighty percent were in their prime of life.
- The pandemic has orphaned more than 11 million children in Africa. By 2010, an estimated 20 million children will have lost one or both parents to HIV/AIDS and, in four African countries with the highest infection rates, one in five children will be orphans.

In addition to its tremendous toll on life, AIDS has had a devastating economic impact at the family, community, and national levels in Africa. It has destroyed traditional economic and social safety nets, made orphanages necessary as a new phenomenon in some societies, rendered many families destitute, undermined increases in productivity, threatened the viability of development investments, and overburdened already strained government services and budgets. This disease threatens to wipe out a generation of people in their most productive years and erase much of two decades of economic and social development gains.

Mitigation efforts are vitally important in reducing the economic and social consequences of the pandemic. African-developed and African-driven prevention programs are critically needed to reduce HIV infection rates, as Uganda and Senegal have successfully done.

In FY 2005, applying the lessons learned from its pilot program during the past two years, ADF will expand its efforts and offer larger grants aimed at alleviating the economic and social impact of HIV/AIDS and reducing the spread of the pandemic, through support for community-based interventions. The Foundation will focus its AIDS prevention activities on women, youth, and other under-served populations and its income generating to mitigate the economic and social effects on orphans and vulnerable children and other care-givers, particularly those in rural and peri-urban areas. ADF will support activities that are African-driven and sensitive and appropriate to gender, age, and cultural and religious traditions.

By fostering innovative, local solutions to stem the spread of HIV/AIDS and mitigate its impact, the Foundation is directly contributing to the U.S. policy priority to combat the pandemic in Africa.

Requested FY 2005 appropriations for the HIV/AIDS prevention and mitigation objective: \$1.107 million (10% of project grants).

**TABLE 9 – HIV/AIDS Performance Indicators and Targets**

<b>Performance Indicator</b>	<b>2004 performance (planned)</b>	<b>2005 performance (projected)</b>	<b>Out-Year Performance funded by 2005 request</b>
People receiving HIV/AIDS prevention training	224,100	264,900	173,800
Women as a percent of those receiving HIV/AIDS training	Minimum of 50%	Minimum of 50%	Minimum of 50%
People affected by AIDS benefiting from mitigation activities	TBD	TBD	TBD

## **Goal II: Expand Local Capacity to Promote and Support Grassroots, Participatory Development**

ADF has developed unique strategies and programs extensive experience and expertise in participatory, grassroots development and strategies that are appropriate for the types of clients most under-served by conventional foreign aid programs. In addition to its direct impact on project beneficiaries, ADF seeks to multiply benefits by influencing how government agencies, bilateral and multilateral donors, development banks, and non-governmental organizations foster economic development in Africa.

By building local institutions, ADF is strengthening civil society and governance and laying a foundation for democracy in Africa.

### **Objective 1: Building Community Development Agencies**

***Build self-supporting, sustainable, local community development Partner Organizations that provide technical assistance and support to grassroots groups***

ADF is building an indigenous “Partner Organization” in each of its countries to become a first-class development organization that promotes and supports grassroots development. The Partner Organizations assist prospective grantees in developing proposals for funding, including conducting rigorous financial analyses to ensure the viability and sustainability of the proposed projects. After ADF awards project grants, the Partner Organizations provide training in financial management and participatory evaluation to grantees, routinely visit them to monitor progress and assist in rectifying implementation problems, and advise them on preparing quarterly financial and performance reports. ADF has been providing training and financial support to groom these organizations to the point of institutional and financial sustainability. To date, the Partner Organizations have concentrated on ADF work. However, in FY 2005, they will take on work for other funding agencies and clients.

Requested FY 2005 appropriations for the building community development agencies objective: \$3.453 million for Partner Organization development grants

### **Objective 2: Community Reinvestment**

***Promote community resource mobilization and reinvestment***

ADF is mobilizing local capital for grassroots development projects and fostering a culture of social responsibility among grantees with for-profit businesses. While ADF assistance is provided as a grant rather than a loan, the Foundation encourages for-profit grantees to make voluntary donations into a trust fund that will be used for grassroots development projects. The trust fund is owned and controlled by the Foundation's non-governmental Partner Organization in each country. The amount and terms of the Community Reinvestment Grant pledges are negotiated by the grantee and Partner Organization and formalized in a binding

legal document between those two parties. During FY 2005, the community reinvestment program will become operational and begin to make grants back to the community for other grassroots development programs.

Requested FY 2005 appropriations for the community reinvestment objective: No additional funding is required for this objective.

### **Objective 3: Partnerships With African Governments, Donors, and the Private Sector**

***Strategic Objective: Establish strategic partnerships with national and local governments, other donor agencies, and the local private sector to support sustainable, grassroots development***

The unique approach and high impact of ADF's work is recognized in strategic partnerships with African governments, other donors, and the private sector. These innovative partnerships serve as vital sources of capital and technology to expand the impact of our program and to disseminate and replicate some of our rich lessons learned and best practices about grassroots, participatory development.

In FY 2002, ADF had strategic partnerships in place that leveraged funding from the Government of Botswana, the Government of Jigawa State in Nigeria, and the World Bank in Guinea. In late 2002, the Foundation entered into a strategic partnership with the Government of Namibia; several trade and investment projects are being undertaken with contributions under that partnership. In FY 2003, the Foundation has already signed memoranda of understanding in three more countries – Cape Verde, Ghana, and Swaziland – and is currently negotiating two others. Including Botswana, Guinea and Nigeria, this will make a total of nine active strategic partnerships. Through these strategic partnerships ADF expects to leverage more than \$2.0 million in contributions for grassroots development in FY 2003.

ADF currently has nine active strategic partnerships with firm commitments of contributions to co-fund projects. Under those partnerships the Foundation is already undertaking:

- trade and investment projects in Ghana, Zambia and Cape Verde:
- activities to provide sustainable income for AIDS victims in Swaziland:
- enterprise development projects in Botswana, Mali, and Senegal:
- community development in Guinea and Nigeria.

Through these nine active strategic partnerships the Foundation expects to leverage at least \$4.2 million in contributions for grassroots development during FY 2005, and ADF will be forging new partnerships to promote trade and investment in Namibia and Nigeria.

Requested FY 2005 appropriations for the strategic partnerships objective: No additional funding is required for this objective.

#### **Objective 4: Use of Participatory Development “Best Practices”**

***Strategic Objective: Encourage African governments and other donors to increase utilization of participatory development “best practices”***

African governments, other donors and PVOs/NGOs are very interested in adopting new ways of fostering broad-based and sustainable economic development when the cost-effectiveness of these approaches has been demonstrated.

In FY 2005, ADF will expand dissemination of its experiences for the broader development community to encourage the replication of successful activities. Through a quarterly news letter and regular additions to the Foundation’s revamped website ([www.adf.gov](http://www.adf.gov)), ADF will share the lessons learned from individual project evaluations, country program assessments, cross-country sectoral studies, and research grants with African governments, donor organizations, PVOs/NGOs, and the general public.

Requested FY 2005 appropriations for the participatory development “best practices” objective: \$0.250 million for learning and dissemination efforts